



## COUNTY OF PLACER

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## OFFICE OF AUDITOR-CONTROLLER

December 10, 2003

To the Board of Supervisors and Citizens of Placer County:

The comprehensive annual financial report (CAFR) of the County of Placer, California (County) for the fiscal year ended June 30, 2003, is hereby submitted in accordance with Section 25253 of the Government Code of the State of California. This statute requires that the County annually issue a report on its financial position and activity, and that an independent firm of certified public accountants audit this report.

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with generally accepted accounting principles (GAAP). Because the costs of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, the information contained herein is complete and reliable in all material respects.

The County's financial statements have been audited by Bartig, Basler & Ray, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2003 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County of Placer's financial statements for the year ended June 30, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal

requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

## **The Financial Report**

The Comprehensive Annual Financial Report consists of three main sections:

- The Introductory Section is intended to help readers get acquainted with the County, its organizational structure, the scope of its services and the legal context.
- The Financial Section presents the basic financial statements, which include the government-wide statements, the fund statements, the notes to the financial statements, management's discussion and analysis, and the independent auditor's report.
- The Statistical Section presents multi-year statistics on demographic and other data of interest to the reader.

## **Profile of the Government**

The County is located 80 miles northeast of San Francisco, and Auburn, the County seat, is located 120 miles southwest of Reno. County encompasses over 1,431 square miles (including 82.5 square miles of water) and is bounded by Nevada County to the north, the State of Nevada to the east, El Dorado and Sacramento counties to the south, and Sutter and Yuba counties to the west.

A recent report from the federal Bureau of Labor Statistics U.S. Dept. of Labor has noted that Placer County experienced the biggest over-the-year percentage increase in employment among the largest counties in the United States. The growth in jobs has occurred in various parts of Placer County, ranging from the fast-growing cities in south Placer County to the high Sierra ski resorts of North Lake Tahoe. In the valley cities, there have been new businesses, major expansions in the service sector, expansions by local hospitals and jobs in the construction industry. Major upgrades at world-class ski resorts at North Lake Tahoe have created jobs in high Sierra communities.

The County's rapid growth is expected to continue into the next century. The 2003 estimated population of 275,600 is a 57 percent increase over the county's population in 1990. The county's population is expected to be over 339,300 by 2010, an increase of 23 percent over the current population. The fastest growing cities will continue to be Rocklin, Roseville and Lincoln, located in South County.

The County provides a wide range of services to its residents, including public protection through the Sheriff's Department, Fire Services, District Attorney's office, medical and health services, public assistance programs, sanitation services, the construction and maintenance of roads and infrastructure, environmental services, parks, libraries, and a variety of other general governmental services. Every resident of the County, directly or indirectly, benefits from these services. Most services performed by the County are provided for all residents, regardless of whether those residents live in cities or unincorporated areas. A major challenge to the County in future years will be the maintenance of these services to the extent feasible within the County's financial resources.

The financial reporting entity (County of Placer) includes all the funds of the primary government (the County of Placer as legally defined), as well as all of its component units. Blended component units, although legally separate entities, are considered to be part of the primary government's operations for financial reporting purposes, as required by GAAP. The following component units are blended: County Service Areas, Sewer Maintenance Districts, Newcastle and Penryn Lighting Districts, Redevelopment Agency of Placer County, and North Lake Tahoe Public Financing Authority. The First 5 Placer County Children and Families Commission is included in this report as a discretely presented component unit.

In accordance with the provisions of California Government Code Sections 29000 through 29143 inclusive, commonly known as the County Budget Act, the County prepares and adopts a budget for each fiscal year. Activities of the General Fund, Special Revenue Funds and Capital Projects Fund are included in the annual budget. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the departmental level except for fixed assets which are controlled at the line item level. The budgeted expenditures become law through the passage of an Appropriation Resolution. This Resolution constitutes the authorized spending threshold for the fiscal year, and cannot be exceeded except by subsequent amendment of the budget by the Board of Supervisors. In the governmental funds, an encumbrance system is used to ensure effective budgetary control and to enhance cash planning and control. Encumbrances outstanding at June 30 are reported as reservations of fund balance.

## **Factors Affecting Financial Condition**

Placer County Economy: Placer County continues to be the fastest growing county in California. The services and trades sectors account for over 60% of total employment. The recent economy has produced mixed results for the County. A strong local real estate market continues to contribute to increases in property tax revenues, however, a leveling off or reduction to several other major sources of discretionary funding such as sales tax, interest earnings and transient occupancy taxes has also occurred.

State Government: The County is a political subdivision of the State of California and as such, its government is subject to State subventions and regulations. Intergovernmental revenues account for half of all governmental funds' revenue. Therefore, the County's financial health is tied closely to the financial condition of the State government. Recently, the California economy was affected by an economic downturn, an energy crisis, a large concentration of high technology companies and a stock market downturn. As a result, the State of California is predicting large budget deficits over the next

few years. Reductions of revenues as a result of a state deficit could have a significant impact on Placer County.

Long-term Financial Plans: The County has embarked on several projects with long-term financial impacts, including the following:

- Constructing a South County Criminal Justice Center, an Auburn Justice Center, and a Land Development Building, with estimated costs in excess of \$200,000,000.
- Continuing essential public health and welfare services threatened by State budget cuts.
- Continuing efforts to support Placer Legacy's Open Space and Agricultural Conservation Program
- Transitioning responsibility for trial court facilities from the County to the state
- Addressing the significant increases in Workers Compensation and retirement costs

### **Cash Management Policies and Procedures**

Except for amounts held with trustees under bond indenture or other restrictive agreements, the County's cash and investments are invested by the County Treasurer. The Treasury Oversight Committee has regulatory oversight for all monies deposited in the Treasury Pool. Such amounts are invested in accordance with investment policy guidelines established by the County Treasurer and reviewed by the Board. The objectives of the policy are, in order of priority, safety of principal, liquidity, and yield. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

### **Risk Management**

The County is self-insured for unemployment, general liability, worker's compensation, and certain employee health coverages. The County records estimated liabilities for such claims filed or expected to be filed for incidents which have occurred. The self-insured amounts for all types of losses except unemployment and dental and vision coverage are supplemented with insurance policies (refer to Note 12). County officials believe that assets of the Self Insurance Internal Service Fund, together with funds to be provided in the future, will be adequate to meet all of the claims related to these liabilities as they come due.

### **Awards and Acknowledgements**

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the County of Placer for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. This was the second consecutive year that Placer County received this prestigious award. In order to be awarded a

Certificate, a government unit must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards and satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting to GFOA to determine its eligibility for another certificate.

The County also earned the State of California Controller's "Award for Achieving Excellence in Financial Reporting" for the fiscal year ended June 30, 2002. Key criteria for the award include timely submission of the financial transactions report and county budget, proper classification of revenue and expenditure data, and complete and proper reporting of outstanding debt.

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated services of the entire staff of the Auditor-Controller's Office. I would like to express my appreciation to all members of the department who assisted and contributed to its preparation. In addition, I acknowledge the leadership and support provided by the Board of Supervisors and the County Executive which have made the preparation of this report possible.

Respectfully submitted,

Katherine J. Martinis, CPA  
Auditor-Controller